

Half-year Report of the Board of Directors

HALF YEAR REPORT OF THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS OF THE PERIOD 01/01/2014 – 30/06/2014

In this report is presented briefly financial information on the Company for the first semester of the current year, as well as important events that occurred in the period, along with their effect on the half-year Financial Statements. The major risk and uncertainties that could be faced are also discussed, along with the prospects until year end. The financial statements were prepared according to the International Financial Reporting Standards.

1. GENERAL

MERMEREN KOMBINAT AD-Prilep (the “**Company**”) operates according to the Trade Laws (Gazette of RM no. 28/96) of the Republic of Macedonia and its prime activities are exploitation, processing and trade of marble and decorative stones. The quarry, the factory and the administration headquarters of the Company are located in Prilep.

2. IMPORTANT EVENTS OF THE FIRST SEMESTER 2014

- On 24/01/2014, Mr. Yiannis Voyiatzis, member of the Board of Directors, resigned. The extraordinary General Assembly of 17/02/2014 has elected Mrs. Jasna Azhievska - Petrusheva and Mr. Ventseslav Avramov as new members of the Board.
- On 27/01/2014 and in the framework of the mining rights concession agreement that is valid until 2030, the Company has been granted a new five-year exploitation license, based on a mining project that covers the period from 2014 to 2019.
- On 28/04/2014 the Company was awarded by the Health and Safety Association of Macedonia for its practices in Health and Safety issues during 2013.
- On 15/05/2014 the Company was awarded ISO 9001:2008 certification.

3. HALF YEAR 2014 OPERATING PERFORMANCE

- The turnover increased by 26.4% compared with half-year 2013 on the back of increased excavation volumes and successful trading policies. The gross profit was at 59.8% of the turnover, up from 53.4% in 2013. As a result, in absolute numbers, the gross profit rose to €5.6 million or 41.7% higher than in 2013 (€3.9 million). The increased gross margin is attributed to increased turnover and the sales mix.
- The total administrative and sales expenses for the period displayed a decrease by 26.8%, mainly thanks to a reduction in the customer discounts (€ 0.5 million, vs. € 1.2 million in 2013).
- As a result, the company registered operating profit before interest and taxes (“EBIT”) of €3.8 million versus €1.3 million in 2013.

- The earnings before tax, interest, tax and depreciation (“EBITDA”) for 2014 rose to €5.1 million vs. €2.5 million in 2013.
- Earnings after tax (“EAT”) was €3.6 million, significantly higher than the corresponding figure of 2013 (€0.9 million). It is noted that the net earnings per share (“EPS”) almost quadrupled to €0.78 vs. €0.20 in 2013.
- Total bank loans as of 30 June 2014 were at €5.6 million, down from €6.1 million on 31 December 2013 (30 June 2013 €7.5 million), i.e. a drop of €0.5 million from December 2013 was registered.
- Equity rose to €17.9 million on 30 June 2014, increased by €0.9 million in comparison to 31 December 2013 (€16.7 million)

4. FINANCIAL STATUS OF THE COMPANY (FINANCIAL RATIOS)

	30/06/2014	30/06/2013	31/12/2013
EAT / Sales	38,6%	12,0%	5,7%
EAT / Shareholder’s equity	20,1%	5,3%	5,7%
Total liabilities / Equity	44,2%	71,7%	55,1%
Bank loans / Equity	31,7%	45,5%	36,6%
Net Debt/ Equity	23,6%	34,6%	28,8%
Current assets / Total assets	43,2%	45,1%	41,0%
Current assets / Current liabilities	2.7x	1.9x	2.2x
EBITDA / Finance cost (net)	24.0x	8.5x	9.2x

5. MAIN RISKS AND UNCERTAINTIES

5.1 SUPPLIERS - INVENTORY

The company has no significant dependence on specific suppliers since it exploits marble reserves on the basis of a long-term concession agreement. Consumables and spare parts are purchased from a diversified basis of domestic and international reliable sources.

5.2 CLIENTS

On 28 May 2012, the Company entered into a non-exclusive agency agreement with FHL H. Kyriakidis Marbles - Granites S.A. (“FHL”) for the promotion of the Company’s Sivec products. This agreement expired on 31 March 2014 was not renewed and no pending obligation out of this agreement exists.

5.3 BORROWINGS

The company cooperates for its financing with Komercijalna Banka A.D., a local bank, and its loan contracts are mostly denominated in euro and bearing floating interest rates.

5.4 FOREIGN EXCHANGE & INTEREST RISK

Foreign Exchange Risk. The Company operates internationally and is exposed to foreign exchange risk arising from various payables and receivables primarily with respect to the Euro. The Company does not use any instrument to hedge the foreign exchange risk.

Interest Rate Risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligation with a floating interest rate. The Company's management is primarily responsible for daily monitoring of the net interest rate risk position and it sets limits to reduce the potential of interest rate mismatch.

5.5 PERSONNEL

The Management of the company is conducted by a team of experienced managers, including executives with international experience and background.

On 30 June 2014, the company was employing a total of 335 persons (356 persons on 31 December 2013).

5.6 ENVIRONMENTAL, HEALTH & SAFETY ISSUES

The company abides by the relevant to its nature and activity laws imposing environmental rules as well as by the regulations on health and safety in the workplace.

For the Company, its development and growth go hand in hand with health and safety of all its employees, making health and safety a top priority for the Company.

6. DIVIDEND POLICY

The General Assembly of the shareholders decided on 27/01/2014 to distribute as dividend retained earnings accumulated before 31/12/2012 for the amount of €0.47 per share (gross).

7. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
30/06/2014					
Stone Works Holding Cooperatief U.A. Netherlands	-	-	-	200,149	-
Castleblock Limited Nicosia Cyprus	252,433	-	928,529	9,069	-
NBGI Private Equity Limited London	-	-	-	3,156	-
Stopanska Banka AD Skopje	-	-	-	-	2,731
Key Management remuneration	-	-	-	167,814	-
	252,433	-	928,529	380,188	2,731

8. BRANCHES

The Company, in addition to its headquarters, has a representative office in Athens.

9. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

After 30 June 2014 until the approval of these interim financial statements, there are no materially significant events adjusting the interim financial information or events that are materially significant for disclosure in this interim financial information.

10. PROSPECTS FOR THE REST OF THE YEAR

The second semester of 2014 is expected to continue being a period of positive operational and financial performance.

Prilep, August 27, 2014

The
CHAIRMAN OF THE BOARD

Theodoros Malfas